



# STATE OF CONNECTICUT

## DEPARTMENT OF PUBLIC UTILITY CONTROL

### THE ENERGY & TECHNOLOGY COMMITTEE

#### House Bill 5215: AAC MODIFICATIONS TO THE PURCHASED GAS ADJUSTMENT CLAUSE

February 23, 2010

#### TESTIMONY OF COMMISSIONER AMALIA VAZQUEZ BZDYRA

The DPUC supports the passage of this proposal. This proposal modifies the provisions of the DPUC's purchased gas adjustment clause (PGA) statute, Conn. Gen. Stat. § 16-19b, by: 1) requiring the DPUC to hold a public hearing no less than annually on the PGA in lieu of the current 6-month public hearing requirement, and 2) specifying that the DPUC is required to hold a public hearing on the PGA at anytime if the Office of Consumer Counsel files an application requesting such a hearing.

#### Background

In general, natural gas customers are charged for the gas commodity portion of their monthly utility bills through a single line item consisting of: a base rate and the PGA factor. The base rate includes an estimate of gas prices for the 12-month period following a general rate Decision. The monthly PGA factor adjusts base rates to bring them in line with actual gas costs incurred by the local distribution company (LDC). Every month, the state's three gas LDCs (Connecticut Natural Gas Corporation, The Southern Connecticut Gas Company and Yankee Gas Services Company) file with the DPUC their proposed PGA rates for the following month, which the DPUC reviews. If necessary or requested to do so by the Office of Consumer Counsel (OCC), the DPUC will hold an administrative proceeding on these filings. Following DPUC approval, the LDCs charge natural gas customers at the newly adjusted monthly PGA rates. The PGA is trued-up annually to reconcile the estimated gas costs reflected in monthly PGA rates to the actual gas cost incurred for the previous 12 month period, which would be September 1 through August 31.

#### Basis for Proposed Change

The existing provisions in Conn. Gen. Stat. § 16-19b require semi-annual proceedings. The semi-annual 6-month periods do not reflect actual natural gas industry practices. Rather, natural gas industry commodity supply planning is annual, normally November 1 through October 31. Natural gas used in the winter is more expensive, and includes gas "saved up" from the previous summer. Summer natural gas prices are generally less expensive. The LDCs purchase and store gas during the summer months for use the following winter. Therefore, no six-month period can accurately reconcile the planning and purchase of gas and the period in which it is consumed or recovered. An annual review will eliminate the potential for inter-period inequities resulting from gas being

purchased in the summer months to be sold during the winter months. Only an annual PGA review can accurately match the gas industry operating practices and the manner in which gas is bought, consumed, and costs recovered from ratepayers. Under the current six-month investigation, parts of the review are redundant because much of the earlier period's information must be reviewed again. As a result, DPUC staff, LDCs, and other participants must dedicate significant resources twice a year to review gas costs and the recovery of these costs. The DPUC believes that by allowing an annual review, greater administrative efficiency can be attained while improving accuracy and minimizing the mismatch of data review and cost recovery. It is also important to note that by issuing a formal Decision in the first semi-annual investigation, the DPUC is prevented from revisiting approved PGAs even if a subsequent review of the full annual gas costs and of the related revenues recovered indicates that an adjustment to an earlier period PGA deferred factor should be made.

As a result of the proposed change, the DPUC recognizes that circumstances will arise that will justify a hearing on the PGA prior to the annual review proceeding. To address this issue, this proposal modifies the current statute to specify that the DPUC is required to hold a public hearing on the PGA at anytime if the Office of Consumer Counsel files an application requesting that we do so.

Through these various proposed changes, the DPUC seeks to modify the existing statute, Conn. Gen. Stat. § 16-19b, in the interest of improving the annual PGA process for the DPUC, the gas companies, and the state's natural gas customers.